

**BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN**

**Application of Milwaukee Water Works, Milwaukee
County, Wisconsin, for Authority to Increase Water
Rates**

3720-WR-107

SUPPLEMENTAL DIRECT TESTIMONY OF DAVID PROCHASKA

June 21, 2010

1 **Q. Please state your name.**

2 A. My name is David Prochaska.

3 **Q. Have you previously submitted direct testimony in this proceeding?**

4 A. Yes.

5 **Q. What is the purpose of your supplemental direct testimony?**

6 A. The purpose of my supplemental direct testimony is to present and explain my
7 revised rate design proposal.

8 **Q. Did you prepare or have prepared under your direction Exhibit 12.8, Revised Rate
9 Design Proposal?**

10 A. Yes.

11 **Q. Please describe Exhibit 12.8.**

12 A. Exhibit 12.8 is my revised rate design proposal in Docket 3720-WR-107 which I
13 prepared in response to the recent Milwaukee Water Works (MWW) revisions to its rate
14 case application and the subsequent revisions to Ms. Butzlaff's revenue requirement and
15 Mr. Behm's cost of service study. Exhibit 12.8 is comprised of the following schedules:

Schedule 12 - Comparison of Revenue at Present Rates, Cost of Service and Proposed Rates

Schedule 13 - Proposed Water Rates and Rules

Schedule 14 - Customer Water Bill Comparison at Present and Proposed Rates

Q. Please explain each of these schedules.

A. Schedule 12 shows a comparison of revenue at present rates, revenue required as a result of the cost of service study, and revenue at proposed rates. This comparison is made for each customer class for the communities served at retail and at wholesale for both general service and public fire protection service. A summary is included showing the overall increase for each community served by MWW. The retail customer classifications are: Urban - Milwaukee; Suburban - Other (Greenfield, Hales Corners, and St. Francis); and Suburban - West Milwaukee. These classifications are further subdivided into the following classes: Residential, Commercial, Industrial, and Public Authority. The wholesale customer classes include the nine wholesale communities and the County Institutions.

Schedule 13 shows the proposed rates and rules.

Schedule 14 shows the customer water bill comparison at present and proposed rates for representative customers in the various customer classes in each of the retail community classifications: Urban - Milwaukee; Suburban - Other (Greenfield, Hales Corners, and St. Francis); and Suburban - West Milwaukee.

Q. Please describe the approach taken in developing rates in this proceeding.

A. My general approach is to use the cost of service study as a starting point to design rates to match the cost of providing service. Another factor to consider is continuity with present rates. As shown on Schedules 11 and 11A of Exhibit 12.7, the cost of service

1 study results show a relatively wide range of increases in the charges to the various
2 customer classes. I am recommending rates that move substantially in the direction of
3 the cost of service. I also recommend that any further movement necessary in that
4 direction be made in subsequent rate proceedings. In moving toward the cost of service
5 in recommended rates, I have done some tempering of the rate increases to customer
6 classes within some of the classifications of service that, according to the cost of service
7 study, should receive the largest percentage increases. Where tempering is done, the
8 resulting revenue difference is recovered through rates to the remaining customer classes
9 within the classification. I would add that the percentage rate increase to any individual
10 customer would not necessarily equal the overall increase to the associated customer
11 class, but would depend on the specific usage level of that customer.

12 **Q. Please discuss any specifics for Urban retail customers (City of Milwaukee).**

13 A. For retail customer classes within the City of Milwaukee, the cost of service study shows
14 general service increases ranging from 24.5 percent for Urban Commercial to 47.2
15 percent for Urban Industrial. I am not proposing such a large increase in rates for the
16 Urban Industrial class. I have continued to temper the impact to the Urban Industrial
17 class to approximately 87 percent of the cost of providing service, as I had done in
18 Exhibit 12.4, Alternative Rate Design Proposal. This results in an increase to Urban
19 Industrial of 28.5 percent. I recommend that further movement necessary toward the cost
20 of service study results be made in subsequent rate proceedings.

21 **Q. Please discuss any specifics for Suburban retail customers (outside the City of**
22 **Milwaukee).**

1 A. Wisconsin Stat. § 62.69(2)(h) continues to be the controlling factor in designing general
2 service rates for these outside retail customers as it provides that charges for service to
3 customers outside the Milwaukee City limits “shall not be less than one-quarter more
4 than those charged to the inhabitants of the city for like use of water.” As before, present
5 and proposed general service rates for Suburban - Other customers are the Urban retail
6 rates applicable within the City of Milwaukee plus 25 percent.

7 With respect to general service rates for Suburban - West Milwaukee, a factor that
8 continues to be considered is that West Milwaukee owns and maintains its water
9 distribution system. In prior MWW rate cases and in prior rate designs in this case,
10 adjusting for this factor meant that the statutory requirement described above did not
11 control as it does for Suburban - Other. However, allocating no distribution costs to West
12 Milwaukee is the proper adjustment to recognize West Milwaukee’s ownership of its
13 distribution system. The non-distribution costs that are allocated to Suburban - West
14 Milwaukee, those relating to supply, treatment, transmission, etc., therefore, are subject
15 to the requirements in Wis. Stat. § 62.69(2)(h) just as they are for Suburban - Other. My
16 proposed general service rates for Suburban - West Milwaukee reflect this, notably in the
17 volume charges. It is my understanding that MWW and West Milwaukee have been
18 discussing the possibility of MWW acquiring the distribution system in West Milwaukee.
19 If that happens, West Milwaukee would join the rest of the Suburban retail communities
20 in their treatment in rate design.

21 **Q. Please discuss any specifics for wholesale customers.**

22 A. For wholesale customers, the cost of service study shows general service increases
23 ranging from 8.5 percent for Greendale to 51.2 percent for Mequon, with an average

1 increase of 19.1 percent. My proposed wholesale general service rates provide no
2 tempering. I based the proposed wholesale service charges on the proposed Schedule
3 Mg-2 charges for the wholesale meters in place, and I set the proposed wholesale volume
4 charges individually in order to recover the full cost of providing service to each
5 wholesale customer.

6 **Q. Please discuss any specifics for Urban retail public fire protection charges.**

7 A. In order that MWW will recover 100 percent of the total cost of providing service for
8 retail public fire protection, I am proposing a 28.1 percent increase in the public fire
9 protection charges to retail customers in the City of Milwaukee.

10 **Q. Please discuss any specifics for the Suburban retail public fire protection charges.**

11 A. My proposed retail public fire protection charges for Suburban - Other are 1.25 times the
12 Urban retail (City of Milwaukee) public fire protection charges, based on Wis. Stat. §
13 62.69(2)(h).

14 For Suburban - West Milwaukee, I am proposing retail public fire protection
15 charges that follow very closely the cost of providing service. This recognizes the fact
16 that West Milwaukee owns and maintains its water distribution system for public fire
17 protection service and results in charges that are approximately 15 percent below the
18 proposed charges for Suburban - Other. If MWW acquires the West Milwaukee
19 distribution system, then West Milwaukee would join the rest of the Suburban retail
20 communities in their treatment in rate design for public fire protection service.

21 **Q. Please discuss any specifics for the wholesale public fire protection charges.**

22 A. The proposed public fire protection charges for the wholesale customers follow very
23 closely the cost of providing service with no tempering.

- 1 **Q.** **Do you have any comments about the operating rules?**
- 2 A. I propose no change.
- 3 **Q.** **Does this complete your supplemental direct testimony in this proceeding?**
- 4 A. Yes, it does.